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Summary:

Brookfield, Connecticut; General Obligation

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

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Credit Profile		
US\$38.245 mil GO bnds ser 2021A due 10/15/2032		
Long Term Rating	AAA/Stable	New
US\$5.5 mil GO rfdg bnds ser 2021B		
Long Term Rating	AAA/Stable	New
Brookfield Twn GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Brookfield, Conn.'s series 2021A (\$38.245 million) and series 2021B (\$5.5 million) refunding general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the town's existing GO debt. The outlook is stable.

The town's full-faith-and-credit pledge secures the bonds. Officials plan to use the series 2021A new-money bond proceeds to provide funding for various capital projects, including \$33.3 million for an elementary school. The series 2021B refunding bonds are expected to yield the town a net present value savings of about \$565,000.

Credit overview

The rating reflects our view of the town's access to a broad and diverse metropolitan statistical area (MSA) and very strong wealth and income indicators. Brookfield's economic development has been consistent and active, which has added to the town's local economy and financial strength. Furthermore, management has been very prudent in its budget estimates, leading to consistently positive financial operations and increased reserve levels since 2015.

Although debt ratios have deteriorated due to this issuance, we believe the town's future fixed costs should remain manageable, in large part because of its pension plan being fully funded and other postemployment benefits (OPEB) liability remaining relatively low.

Brookfield's GO bonds are eligible for a rating above the sovereign, because we believe the town can maintain better credit characteristics than the nation in a stress scenario. Under our "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" criteria, published Nov. 19, 2013, the town has a predominantly locally derived revenue source, with 87% of general fund revenue from property taxes. It also has independent taxing authority and treasury management from the federal government.

The long-term rating reflects our opinion of Brookfield's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2020;
- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 11.8% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.0% of total governmental fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 132.1% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We consider the town's social risks in line with those of the sector. We analyzed the town's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

Although we expect Brookfield will continue to manage its debt burden, should future debt issuance result in materially weaker debt metrics, or should financial metrics unexpectedly weaken for multiple years, we could lower the rating.

Credit Opinion

Very strong economy

We consider Brookfield's economy very strong. The town, with an estimated population of 17,589, is located in Fairfield County in the Bridgeport-Stamford-Norwalk, CT MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 146% of the national level and per capita market value of \$189,062. Overall, the town's market value grew by 1.3% over the past year to \$3.3 billion in 2022. The county unemployment rate was 7.9% in 2020, which peaked due to the COVID-19-pandemic-induced recession; the county unemployment rate in 2019 was 3.6%.

Brookfield is approximately 70 miles north of New York City and borders Candlewood Lake, Connecticut's largest lake. The town participates in the broad and diverse Bridgeport-Stamford-Norwalk MSA and residents have access to broader employment opportunities in New York City and Westchester County. Although the town is mainly residential, it does maintain a notable commercial presence that makes up about 15% of the total tax base.

The local economy remains very strong, supported by a stable real estate market and continued commercial and residential developments that should underpin near-term stability. The town has been undertaking revitalization efforts in the Town Center District, with the support of state and federal grants. This has yielded new taxable levy growth, as developers have seen greater interest in investing within the district and in surrounding neighborhoods. Officials report there are several development projects underway, including a utility expansion project from Iroquois Gas, a new

assisted-living facility, the addition of the Branson Ultrasonics headquarters, as well new businesses that are moving into the town. The town also continues to support many of these developments and areas of interest, such as Brookfield Village, through infrastructure upgrades and expansion in order to help attract further private development. Officials also indicate the town continues to experience increases in its local population as more people move away from urban centers like New York City into suburban communities like Brookfield, which is expected to lead to more growth in the town's local economy.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The town's assumptions are generally conservative, including a zero-based budgeting approach for each department's budget and a minimum three-year historical trend analysis, although officials indicate they can go back as far as 20 years if necessary. Management also reports budget to actuals to the board monthly, as well as school-related budget to actuals. Brookfield maintains a formal 10-year capital improvement plan that identifies funding sources and is updated annually. It also has a formal investment policy that mirrors state guidelines. Officials do not maintain a formal long-term financial plan, although they are adopting one. The town also has an informal debt policy of maintaining debt service at no more than 10% of expenditures and an informal reserve policy of maintaining available reserves at a minimum of 10% of expenditures, which it currently adheres to. The town is working toward adopting a formal debt management policy within the next two years and an updated reserve policy within this fiscal year. The town is taking steps to mitigate cyber risks, including conducting an IT audit in 2020.

Strong budgetary performance

Brookfield's budgetary performance is strong, in our opinion. The town had slight surplus operating results in the general fund of 1.3% of expenditures, and balanced results across all governmental funds 0.3% in fiscal 2020. General fund operating results have been stable, at 1.8% in 2019 and 1.8% in 2018.

Property taxes account for 84% of general fund revenue, followed by intergovernmental at 13%, which includes on-behalf state pension contribution payments toward the teachers' pension plan. Fiscal 2020 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds.

The town has consistently maintained positive financial performance over the past three years. For fiscal 2021, the town expects to end the year with \$2 million general fund surplus. The town had conservatively adjusted its revenues for fiscal 2021 based on the information it gathered from the end of fiscal 2020. However, fiscal 2021 revenues outperformed the budget by about \$1.4 million in tax collections, conveyance taxes, building permits, and town clerk fees; Brookfield also expects all COVID-19 costs to be covered by grants. The board of education had additional expenditures of approximately \$1 million due to instructional adjustments it made for remote learning; however, this was offset by a similar amount, which yielded net savings of \$500,000 compared with budgeted expenditures. The town has been granted \$5 million in American Rescue Plan Act funds, of which \$2.5 million has been received and is classified as unearned revenue in a separate account not included in the figures mentioned. The town has appointed a committee to recommend how these funds will be allocated; \$1.9 million may be allocated to lost revenue, which

might be used to offset some of this issuance.

The fiscal 2022 budget totals \$74.8 million, which represents approximately a 4.65% increase over the previous year and includes no use of fund balance toward the budget. Revenue assumptions, with the exception of interest revenue, were adjusted back to pre-pandemic levels. The school department budget increased by 2.85%, primarily consisting of salary increases. In addition, the town has implemented measures in its 10-year capital plan to minimize its debt issuance reliance by committing an additional \$4 million, over its current \$1 million, in annual cash spending; the town anticipates it will be able to fund this through the new tax revenue growth it is experiencing.

Strong budgetary flexibility

Brookfield's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 11.8% of operating expenditures, or \$9.1 million.

The town has steadily increased reserves since 2015 and expects to have improved reserve levels by an additional \$1.4 million for year-end fiscal 2021, for an estimated \$12.4 million. Management does not expect to use reserves by fiscal-year end. Therefore, we expect the town's budgetary flexibility will remain at least strong.

Very strong liquidity

In our opinion, Brookfield's liquidity is very strong, with total government available cash at 19.0% of total governmental fund expenditures and 2.7x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

The town has issued GO bonds in the past 20 years, supporting its access to external liquidity. We do not expect any deterioration in the town's cash levels, so we believe liquidity will remain strong. The town confirmed it does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events.

Weak debt and contingent liability profile

We have revised our view of Brookfield's debt and contingent liability profile to weak from strong due to this issuance leading to deteriorating overall debt metrics, which we anticipated during our last review given debt plans. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 132.1% of total governmental fund revenue.

With this issuance, the town will have about \$110.9 million in total direct debt. The total cost of the school project, the bulk of this issuance, is estimated at \$78 million with the town's portion totaling \$63.3 million net of state reimbursement. The town anticipates new property tax revenue from three large development projects, which is expected to net an additional \$2.3 million by fiscal 2025, will help offset the increases in future debt service related to the school project. The town tentatively has plans to issue \$3 million-\$5 million in debt for police radios. We understand the town does not have any additional debt plans or other major projects on the horizon once the school is completed.

Pension and other postemployment benefits:

- We do not view pension and other postemployment benefits (OPEB) liabilities as an immediate credit risk for

Brookfield.

- The town's pension costs are low as a percent of expenditures and the plans maintain high funded ratios.
- Although OPEB liabilities are paid primarily on a pay-as-you-go basis, the low cost and liability is unlikely to represent a credit risk in the near term, and the town has begun funding an OPEB trust, which is 9.55% funded as of fiscal 2020.

As of June 30, 2020, Brookfield participated in the following plans:

- Brookfield Public Employee Retirement System: 102.2% funded, with a net pension asset of \$1.3 million.

Brookfield's combined required pension and actual OPEB contributions totaled 2.1% of total governmental fund expenditures in 2020. Of that amount, 1.6% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The town made its full required pension contribution in 2020.

Brookfield administers its own defined-benefit pension plan for town employees. The plan uses an assumed rate of return of 6.5%, which we consider a sustainable rate of return to limit the impact of market volatility on costs. The town has implemented a hybrid plan for all employees. New employees hired after July 1, 2017 would participate in the plan, which combines the town's current defined-benefit plan with a defined-contribution plan where employees will be covered under the defined-benefit plan for their first 20 years of employment and then switch to a defined-contribution plan to which they contribute a minimum 5% and the town contributes up to 11%. The plan is mandatory for new employees and optional for any employees hired before 2017. Although the town will not see a reduction in contributions, according to officials, the goal of the hybrid plan is to reduce Brookfield's liability over the long term and mitigate potential risks while providing the same benefits to employees and retirees.

Brookfield also provides OPEB benefits to eligible retirees, although it eliminated these benefits for all future town and non-certified employees. As of fiscal 2020, the town had an unfunded liability of \$12.1 million. The town maintains an OPEB trust fund with a current balance of \$1.3 million as of fiscal 2019. Overall, given the town's fully funded pension plan and manageable OPEB liabilities, we expect costs will remain low.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

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